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REDUCING THE COST OF PROCUREMENT OF MATERIAL AND SERVICES (U)
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STUDENT ESSAY

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28 MAY 1980

REDUCING THE COST OF PROCUREMENT OF MATERIAL AND SERVICES

BY

COLONEL CHESTER F. JOHNSON
FINANCE CORPS

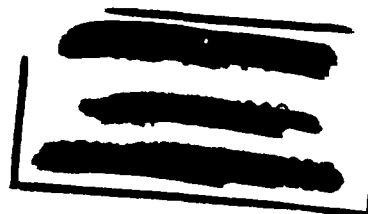
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REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
	AD-A091255	
4. TITLE (and Subtitle)		5. TYPE OF REPORT & PERIOD COVERED
(6) Reducing the Cost of Procurement of Material and Services,		
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s)		8. CONTRACT OR GRANT NUMBER(s)
(10) COL Chester F. Johnson		
9. PERFORMING ORGANIZATION NAME AND ADDRESS		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
US Army War College Carlisle Barracks, PA 17013		
11. CONTROLLING OFFICE NAME AND ADDRESS		12. REPORT DATE
Same		(11) 28 May 80
		13. NUMBER OF PAGES
		24
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		15. SECURITY CLASS. (of this report)
		Unclass
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report)		
Approved for public release: distribution unlimited		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number)		
<p>Commercial payments and stock fund division sales are fruitful areas for substantial cost savings. This can be accomplished with a little imagination, relaxing of DOD regulations, and government policies. This is especially true considering the state of the art of financial management, major computerized financial and supply systems, and our ability to use the fast pay and certificate of conformance procedures currently authorized in procurement instructions and regulations.</p>		

20. continued.

My paper will analyze the commercial accounts procedures and intra/inter agency stock fund transactions and recommend changes that can be made to realize substantial cost savings. Due to the lack of sufficient research capability and time the amounts and figures used will be approximates. Actual figures are available and can be obtained at a later date. The cost savings will be identified more with the activities listed in the first paragraph, but they are applicable throughout the government as the same basic procurement and payment procedures are used by all government agencies.

USAWC ESSAY

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REDUCING THE COST OF PROCUREMENT
OF MATERIAL AND SERVICES,

by

Colonel Chester F. Johnson
Finance Corps

Accession For	
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US Army War College
Carlisle Barracks, Pennsylvania
19 October 1979

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ABSTRACT

AUTHOR: Chester F. Johnson, COL, FI
TITLE: Reducing the Cost of Procurement of Material and Services
FORMAT: Essay
DATE: 19 Oct 1979 PAGES 17 CLASSIFICATION: Unclassified

Commercial payments and stock fund division sales are fruitful areas for substantial cost savings. This can be accomplished with a little imagination, relaxing of DOD regulations, and government policies. This is especially true considering the state of the art of financial management, major computerized financial and supply systems, and our ability to use the fast pay and certificate of conformance procedures currently authorized in procurement instructions and regulations.

My paper will analyze the commercial accounts procedures and intra/inter agency stock fund transactions and recommend changes that can be made to realize substantial cost savings. Due to the lack of sufficient research capability and time the amounts and figures used will be approximates. Actual figures are available and can be obtained at a later date. The cost savings will be identified more with the activities listed in the first paragraph, but they are applicable throughout the government as the same basic procurement and payment procedures are used by all government agencies.

COMMERCIAL TRANSACTIONS

All DOD Instructions (DODIs) dealing with procurement, the Army Services Procurement Regulations (ASPRs), and service regulations governing commercial accounts procedures (both supplies and services) require the processing of both an invoice and a receiving report (includes certificates of conformance) in order to process payment to the commercial vendor for the items they deliver and the services they perform. The Army relaxed this procedure somewhat in 1977. The procedure was changed to authorize payment to commercial vendors who fail to submit invoices when the overall purchase is for amounts of \$500 or less after appropriate notification of the vendor by telephone call or first class mail. They also authorized payment for amount of more than \$500 after much more formal notification. These requirements are placed on all transactions without regard to the dollar value of the transaction or the fact that most transactions are processed into a financial and a supply system both which are under government control. In most mechanized financial systems, the transaction will not clear the system until the receiving report is processed into the system.

Normal procedures for the Army as outlined in the DAR (ASPR) and Army regulations are as follows:

1. The contractual instrument is processed by an authorized contracting officer and copies of the instrument are forwarded to the designated funding and paying office. (The copy forwarded to the

paying office is the commercial accounts copy.) The commercial accounts copy is suspended by the paying office for subsequent processing.

2. After conformance with the contract, the vendor submits a claim against the government (invoice) to the paying office. The invoice is submitted in three/four copies depending upon the distribution requirement of the paying office. AR 37-107, para 3-11a,¹ provides a good description and content of the vendor's invoice: "The vendor's invoice is a claim against the government. It should reflect an itemized listing of quantities, description of items, unit cost, and total cost."

3. Approximately the same time the invoice is submitted, a document substantiating receipt performance is processed by the activity receiving the supplies or services and forwarded to the designated paying office. Authorized forms include:

- a. DD Form 250, Material Inspection and Receiving (MIRR) (the MIRR is usually initiated by the contractor and sent along with the shipment);
- b. DD Form 1155, Order for Supplies or Services, used as the procurement instrument, receiving reports, and payment document;
- c. Standard Form 44, Purchase Order-Invoice-Payment Voucher; and
- d. Other forms which are prescribed in the DAR (ASPR) and service regulations.

The receiving report describes the item received and gives the quantity received. It also lists any items rejected and the reason the items were rejected. The original receiving report will be

certified by the receiver of the supplies/services and forwarded to the paying office. It is eventually filed with the retained records of the paying office. Appendix I of the DAR (ASPR) outlines the detailed use, preparation, and distribution of the receiving report. When the "Fast Pay" (DAR (ASPR), para 3-606)² or certificate of conformance procedures (DAR (ASPR), para 14-305.7)³ are authorized in the contractual document, the contractor basically certifies his conformance with the terms of the contract.

4. As indicated in the above paragraphs, copies of the three documents (contract, invoice, and receiving report) are forwarded to the paying office. Here a suspense and matching exercise takes place. The first document received (usually the contractual instrument) is filed and it is subsequently matched with the next document received (usually the invoice). The first two documents are eventually matched with the final document (usually the receiving report). The operation is more involved than the simple step-by-step procedure outlined above as action is constantly being taken to obtain the receiving report or invoice after one of the two documents is received.

a. If the invoice is received first, action is initiated to obtain the receiving report so that payment can be completed. (Contract, invoice, and evidence of receipt is required prior to payment.) This may require one or more followup actions, especially if a discount is involved. The discount period starts on the date the invoice is received or the goods or services are received, whichever is the

latest.

b. If the receiving report is received and the invoice is not in the active file, action must be taken to locate the invoice in case it is somewhere in the processing cycle (may be misfiled in the paying office or misrouted to another office) as the discount period may have already started. As previously indicated, payment may be made without the invoice after documented action has been taken to obtain an invoice from the vendor.

c. In many cases, discounts are lost due to the receiving or acceptance report being received too late to take advantage of the discount terms of the contract. The excerpt at Attachment A from the U.S. Army Finance Center "All Points Bulletin" outlines some of the problems involved with the timely processing of receiving reports and the adverse impact it has on other activities.

Except in the area where "Fast Payment Procedures" or "Certificate of Conformance" procedures apply, the basic procedure outlined in the preceding paragraphs apply to all contractual transactions without regard to the dollar value of the transactions. Each of the steps involved with processing the invoices and receiving reports prior to making payment are costly, i.e., filing, suspending, followup, comparison of data on the contract, invoice and receiving report, etc. Most of the costs associated with the actions above are not necessary in all cases and can be eliminated if some basic laws and regulatory procedures can be done away with or changed.

My first recommendation is revolutionary, but sound, and requires

both a change in law, regulations, and procedures. I recommend eliminating both invoices and receiving reports for small dollar value transactions where the relative cost of the item or service being procured is less than the cost of the action necessary to process the invoice, receiving report for payment. It is proposed that payment be made based upon the required delivery date (RDD) in the contractual document. The only action necessary will be a suspension of the contract by RDD and payment made at that time based upon constructive delivery or performance. A statistical sampling procedure can be used to request a relatively small number of receiving reports from the receiving activities. A level can be selected that would provide an adequate test of receipt validity and allow appropriate action to be taken against contractors who do not perform. The dollar value of transactions to be included under this procedure could be determined after computing the cost of all actions which must be taken prior to paying the contractor under the current procedure. A significant cost saving would be realized in a number of ways:

- a. The government would save by eliminating considerable manual effort (in some activities these transactions are semi-mechanized) currently involved in processing these low dollar value payments.
- b. Contract price for these low dollar value transactions should be less as the contractor benefits by not having to process invoices (contract instead of invoice could be filed for payment) and carrying accounts receivables for an extended period of time in

relationship to the time under the current procedure. This is similar to the prepayment procedure used by many of the commercial companies that sell at a lower price if payment is forwarded along with the order.

c. There would be no lost discounts for these transactions as payment would be tied to the RDD cited in the contract. An offset to the savings would be the cost of items that are not received and the associated interest on funds prepaid prior to the receipt of the item or services even though this would be mitigated somewhat by using the RDD as the "magic" date for payment. In any case the interest cost should be reduced considering the fact that the government can borrow for less than the contractor cost (loan rate for cash and collection of aged accounts receivable). If the contract has to bear the cost of delayed payment under the current procedure, the cost is merely passed on to the government as part of the selling price.

This approach could be further extended by raising the value of the transaction and increasing the reliability level of the statistical sampling. It could be extended to the current small purchase level and the savings would be drastically increased as the Federal Government processes millions of transactions at that level. As the level increases, I would propose that certified invoices be submitted and elimination of receiving reports only. This proposal is not as abstract as it may sound considering that more offices than the paying office follow a procurement transaction from start to finish and have enough control to insure compliance at a certain

acceptance level. The contracting officer maintains a contract file which covers the complete status of the transaction. For supply transactions, the supply system retains a due-in status on the item until it is received or cancelled. Both of these are usually independent of the financial accounting system and represent duplicate processing. This system would also eliminate a reconciliation step which is currently required between the supply and financial accounting systems. The overall cost savings can be easily computed with a value/number placed on all the variables.

As I have already stated, the implementation of this procedure would require a change to law and procedure. Once the law is changed, the procedures and regulations should not be any problem. Currently the law, as interpreted by the General Accounting Office (Comptroller General), requires a claim against the government (invoice) before payment can be made, or as previously indicated documented evidence of positive action to obtain an invoice from the contractor. This requirement would have to be relaxed and agency procedures changed accordingly. I have not been able to find any statutory requirement for submission of invoices or processing of receiving reports. Current regulations and rulings by the Comptroller General establish the fact that the government has a contractual obligation to pay the contractor as soon as he conforms with the provisions of the contract. The requirement for submitting an invoice and processing receiving reports is administrative and should be changed in light of the dollar savings, especially considering that the transaction is being monitored in other

systems. Current regulations authorize payment to be made by Treasury check sent along with the purchasing order for payment for publication. The procedure recommended above merely expands this concept to all areas where it is cost effective.

The government is currently increasing its use of contracts in the support service area and a change in the payment procedure would increase any potential cost savings by decreasing the administrative cost associated with paying the contracts. Effective quality control procedures would be employed that would ensure a certain percent of compliance. The quality control procedure could be tied more to the contract file instead of payment file.

INTRA-GOVERNMENT TRANSACTIONS

This area has been streamlined considerably during the past few years but there are still large cost savings that can be realized by some minor changes. I propose elimination of the requirement for processing receiving reports into the financial accounting system. The preparation, forwarding, and processing of these transactions into the financial accounting system as evidence for payment and to close the financial record represents duplicate processing and an area where significant cost savings can be realized by simply eliminating the requirement at all levels throughout government. The transaction is strictly administrative and serves no useful purpose since a supply file also maintains the status of each transaction in a due-in status until it is received.

The diagram at Attachment B provides a pictorial outline of the

entire system which is tied together by the Military Standard Requisitioning and Issuing Procedures (MILSTRIP) and the Military Standard Billing System (MILSBILLS). The (MILSBILLS) inter-fund billing system is a uniform billing and collecting procedure used to account for the sale of materiel from one DOD stock fund division to another division or to one of the consuming appropriations. The system operates through a central clearing office which processes the collection from the billing activity. The system is a highly mechanized system which is controlled through the use of detail and summary billing cards and a monthly reporting system. Once a billing activity has processed a collection into the system, it must be cleared by appropriate payment action by the billed office or appropriate corrective action on the part of the billing activity. The billing action initiated by the billing activity provides immediate collection and eliminates potential cash problems or accounts receivable problems that would be associated with delayed collection of the same. The top portion of the diagram was discussed in the first part of my paper and covers the purchase of supplies or services from commercial contractors. After the supplies are purchased, they are government owned and accountability is maintained by the stock fund.

The second phase is the retail stock fund interface with the wholesale stock fund. The retail stock fund initiates requisitions against the wholesale stock fund using the MILSTRIP procedures. The item is shipped to the requesting activity and collection is

completed through the interfund billing system. Appropriate payment action is also completed by the paying office based upon constructive delivery after proper identification of the transaction has been made. Payment is made through the interfund billing system. This part of the second phase is valid and should be continued.

The action in the paragraph above does not close the financial accounting system. A receiving report is currently required to close the transaction. When the supplies are received by the accountable personnel, a receiving report is prepared and processed into the supply and financial systems. The receiving report normally closes the files. In some cases, two separate data bases (supply and financing) are maintained and a reconciliation problem is created in keeping the two files in balance. This can be a tremendous workload as the transactions processed by some large commands run into the millions. I propose eliminating the requirement to process receiving reports in the financial file. The transaction should be moved from the active financial accounting system based upon payment through the interfund billing system. (Constructive delivery assumed) The supply system controls the status of due-in items until they are physically received or cancelled. There is no need to also control the transaction in the financial record. Supply regulation (AR 725-50) covers the processing of receipt and due-in transactions in the supply accounting system. By not processing the receiving report in the financial file, the government would realize a savings of the cost associated

with processing the transaction. This would also eliminate the requirement for a complete reconciliation of the financial and supply systems. The verification between the two systems could be limited to overaged due-ins in the supply file and overaged unliquidated obligations in the financial file. The savings would be drastically increased in situations where the activity has independent supply and financial systems.

The overriding factor in eliminating the processing of the receiving report in the financial file is that it serves no useful purpose at all when considered from an overall government standpoint. As can be seen from the diagram (Attachment B), the item has already been capitalized by the government (wholesale stock fund) and the government is paying a very high administrative cost for no real overall benefit. The supply system, through its processing of the receipt and due-in transactions, exercises sufficient control to verify receipt at the desired acceptance level. Under the current system, experience has shown that the receiving activities do not always forward the receiving reports even though it is required. The highest level of receiving report satisfaction achieved at one of my last assignments was about 85% satisfaction. Coordination with one other major command revealed that their level was approximately the same. In some cases the number of receiving reports not received or processed has been estimated as low as 40%. This was with active followup procedures. Approximately 15% of the documents are never received and the transactions have

to be processed as constructive receipts after a period of time in order to clear the files. If this is not done the system would not be manageable at all due to the enormous volume of uncleared transactions. There is a tendency for the receiving activities to forget about processing the receiving report after they have already received (and in most cases have already used) the item by the time followup action was initiated. I agree with the activities since the cost to followup and process the receiving report is for administrative purposes only. If the requirement for processing receiving reports against the financial file cannot be eliminated in its entirety, I recommend that it be reduced to a statistical sampling procedure whereby a certain number of items out of the financial file would be selected and receipt verified with the receiving activity. A number much lower than the total population could be selected to guarantee a specified confidence level. This would represent a significant reduction since millions of transactions are processed each year within DOD alone.

Change 10, 30 Jun 76, to the Military Standard Billing System (MILSBILLS) supports my proposal to eliminate processing receiving reports in the financial system. The change deals with billing adjustments, requests, and responses. The change is at Attachment C. All changes are indicated by marginal lines. The significance of the change in relationship to eliminating the processing of receiving reports in the financial system is the change which raised the billing adjustment level from \$10 per line item to \$100

per line item for DOD activities. This means that the billed activity will pay for the item whether it is received or not. They have recognized the administrative cost of processing adjustment transactions in relationship to the dollar value of the transaction. (The fact that the cost of researching and documenting such transaction will normally exceed \$100.00). This is the basic rationale I am using in proposing elimination of processing invoice and receiving report for low dollar value commercial transactions in the financial system and 100% elimination for intra-government transactions. Why build a system which requires processing of the receiving report into the system if you must pay for those less than \$100 transactions which are billed whether the item is received or not? Constructive delivery should be assumed on all intra-governmental transactions for less than \$100 and a statistical sampling technique used on all transactions which exceed \$100.00.

The third phase of the diagram at Attachment B is the consuming appropriation interface with the retail stock fund. The consuming appropriation initiates requisitions against the retail stock fund. Much of the duplication and administrative costs associated with the retail-wholesale interface also takes place with these transactions. The impact is not as great at installations in CONUS where the consumer appropriation and the stock fund financial accounting is completed within the same computer configurations. A receipt document is not normally required as the charge is accrued against the consumer appropriation in a cycle immediately

after the item is dropped from accountability and billed by the stock fund. (This approach supports my overall concept because it assumes constructive receipt by the requesting activity and charges his account for the item released by the retail stock fund.) In overseas areas, this is not normally the situation since the Direct Supply Support System (DSS) has been implemented in most areas. Under this system the item is ordered by the consuming appropriation from the retail stock fund. The retail stock fund finances and passes the transaction on to the wholesale stock fund who ships the item directly to the customer (consuming appropriation) but bills the retail stock fund. Receiving reports are required to closeout both the retail stock fund and consuming appropriation financial files. This requirement should be eliminated for the consuming appropriation financial file as well as the stock fund.

RECOMMENDATION

Based upon the preceding discussion, the following recommendations are made:

a. Delete the requirement for both invoices and receiving reports for small dollar value commercial transactions where the relative cost of the item or service being procured is less than the cost of the action necessary to process the contract, invoice, and receiving report for payment.

b. Extend the concept in para a above, to include all current small purchases or possibly even higher. As the value of the contractual instruments increases, I propose that invoices be submitted and eliminate receiving reports only.

c. Delete the requirement for processing receiving reports in the financial file for all intra-agency transactions.

As outlined in the discussion, implementing the above recommendations will result in substantial cost savings for the U.S. Government since the recommendation is applicable throughout the Federal Government.

Chester F. Johnson

FOOTNOTES

1. US Department of the Army, Army Regulation 37-107, para. 3-11a.
2. Department of Defense, Defense Acquisition Regulation (DAR-(ASPR)) 1-106, para. 3-606.
3. Ibid., para. 14-305.7.

SELECTED BIBLIOGRAPHY

1. Department of the Army. Army Regulation 37-107: Finance and Accounting for Installations: Processing and Payment of Commercial Accounts (Reprinted w/Basic Incl C1-19): 23 Apr 58.
2. Department of Defense. DAR (ASPR) 1-1-6: Defense Acquisition Regulation (Armed Services Procurement Regulation (Supplements 1 thru 5)): 1 Jul 76.
3. Department of Defense. DOD Manual 4140.17-7: Military Standard Requisitioning and Issue Procedures (MILSTRIP): 1 Oct 71.
4. Department of Defense. DOD Manual 4000.25-7-7: Military Standard Billing System (MILSBILLS). (Reprinted w/Basic Incl C1-3): 13 Jul 73.
5. Department of the Army. Army Regulation 725-50: Requisitioning, Receipt, and Issue System (Reprinted w/Basic Incl C1-2): 28 Jun 74.

APRIL 1977 ALL POINTS BULLETIN
(Excerpt)
COMMERCIAL ACCOUNTS

A systematic analysis of data accumulated through the Finance and Accounting Assistance Program for the period July 1976 through January 1977 indicates that receiving reports are not reaching the FAO on a timely basis. This deficiency not only impacts on commercial accounts in the settlement of vendor invoices, but also can have a significant effect on fund control and utilization.

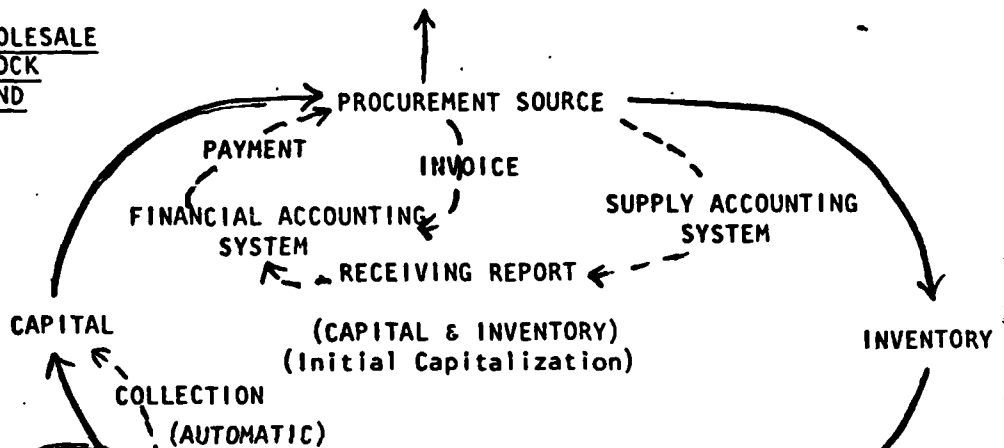
Too often we measure the effectiveness of the commercial accounts function based solely on the volume and dollar value of discounts lost. Although the late receipt of receiving reports is a contributor to this condition, it impacts on the total FAO commercial accounts function and the installation's administration of commercial payments. Failure to submit receiving reports on a timely basis increases unliquidated obligations and also the time required by accounting personnel and major activity directors to review and purify them. At the end of any particular quarter or at year-end, this could have a detrimental effect on fund utilization as well. Finally, much needlessly wasted effort is also expended by finance personnel in screening files and contacting personnel several times to obtain missing receiving reports.

Aggressive action through command channels is necessary to emphasize the necessity for supported activities to make accurate and timely submission of receiving reports to the paying office. If this does not improve the situation, the monthly finance operations report is another avenue of communication which could obtain the command support needed. Finance and accounting officers should become thoroughly familiar with the provisions of AR 715-29 (Processing of Receiving Reports) which states a Department of Army target of 2 workdays for completion of a receiving report and directs that records be kept to measure progress against that objective. It further provides that spot checks will be made at frequent intervals to measure how well the objective is being met. The internal review program could include such a review to further stimulate improvement. Improvement can be made in this area provided the comptroller, finance and accounting officer, and chain of command are actively involved.

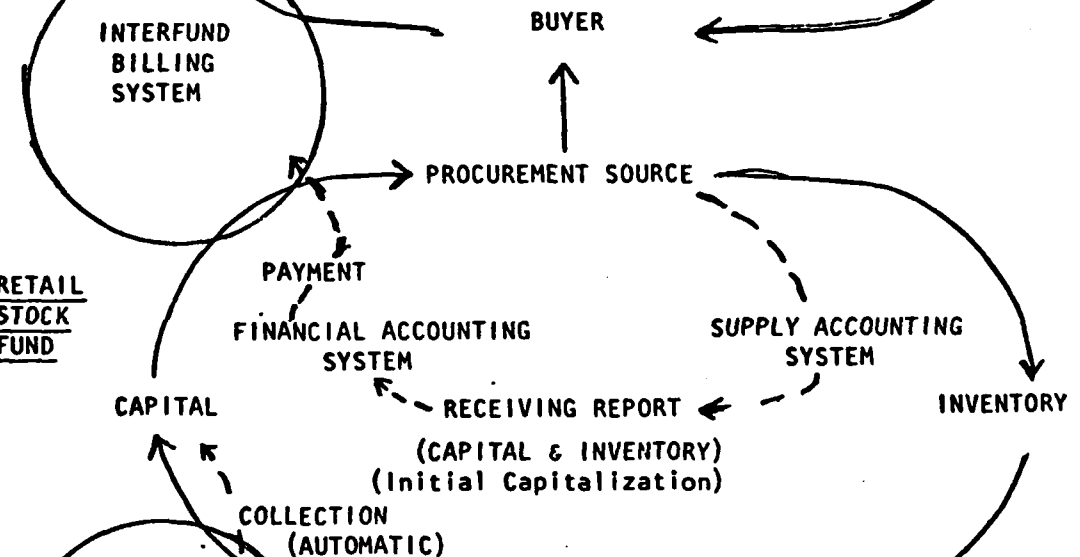
ATTACHMENT A

COMMERCIAL CONTRACTORS
(Some Government Activities)

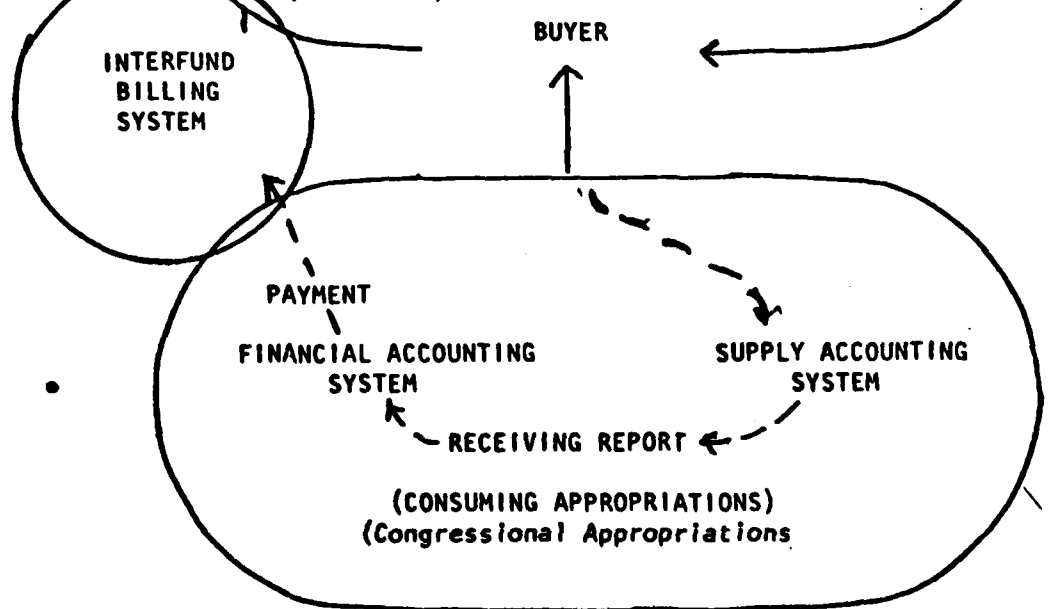
I. WHOLESALE STOCK FUND



II. RETAIL STOCK FUND



III.





DEFENSE SUPPLY AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22314

CS 10
DoD 4000.25-7-M

DSAH-CF

CHANGE NO. 10
DoD 4000.25-7-M

30 Jun 76

MILITARY STANDARD BILLING SYSTEM

I. DoD 4000.25-7-M, 12 Jul 73, is changed as follows:

Remove pages listed below and insert revised pages. Changes are indicated by marginal lines.

Remove Old

1-5 thru 1-8
2-1 thru 2-6
3-1 thru 3-3
6-1
7-1 thru 7-3
8-1
A1-2.1
A2-1 thru A2-2.10
A3-1 thru A3-3
B1-1 and B1-2
B5-1 thru B5-4

Insert New

1-5 thru 1-8
2-1 thru 2-6
3-1 thru 3-3
6-1
7-1 thru 7-3
8-1 and 8-2
A1-2.1
A2-1 thru A2-2.9
A3-1 thru A3-3
B1-1 and B1-2
B5-1 thru B5-4

II. The effective date of this publication is 1 January 1977 except for the following changes which will become effective as shown below:

A. Immediately:

1. Page 1-6, paragraphs 1-10i and 1-10m
2. Page 1-6.1, paragraph 1-10o
3. Pages 1-7 and 1-8, paragraphs 1-11 and 1-12
4. Page 2-5, paragraph 2-3c

B. As of 1 August 1976:

1. Page 2-3, paragraph 2-1m
2. Page 3-3, paragraph 3-4c(2)
3. Page 7-1, paragraph 7-1d(1)
4. Page 7-2, paragraphs 7-2a, 7-2b, 7-2c and 7-2d
5. Page 8-1, paragraphs 8-1b and 8-1c
6. Pages A2-1 and A2-2, appendix A2, changes concerning advice code 021, 023, 024, 026, 027, 028, 029 and 041
7. Page A2-2.9, paragraph c(1)(c)4a
8. Page A3-1, Advice Code AN (new)

ATTACHMENT C

Incl 2

CI 30
DD 4000.25-7-M

III. This change sheet will be filed in front of the publication for reference purposes, after changes have been made.

BY ORDER OF THE DIRECTOR



J. J. McALEER, SR.
Colonel, USA
Staff Director, Administration

DISTRIBUTION

Defense Supply Agency: 3

Army: To be distributed in accordance with DA Form 12-9A requirements for Financial Administration:

Active Army: C (Qty rqr block no. 65)
ARNG: C (Qty rqr block no. 65)
(Qty rqr block no. 66)

CHAPTER 7

BILLING ADJUSTMENT REQUESTS AND RESPONSES

7-1. CUSTOMER REQUESTS TO DoD ACTIVITIES

a. Customers requesting an adjustment will submit to the billing office a Customer Request for Materiel Billing Adjustment/Allowance Card per Appendix B6. These FAE cards will be sent by AUTODIN if such facilities are available and economical. Where discrepancy reports are involved, billed offices will withhold submission of requests for any billing adjustment (FAE cards) until 60 days after submission of the original discrepancy report. The seller will promptly review the discrepancy report and, if appropriate, issue credit billing. If after 60 days a credit billing has not been received, the billed office will then submit a request for billing adjustment. Original discrepancy reports will continue to be processed promptly in accordance with:

(1) AR 55-38/NAVSUPINST 4610.33A/AFR 75-18/MCO P4610.19B/DSAR 4500.15, for transportation-type discrepancies.

(2) AR 735-11-2/NAVSUPINST 4440.127D/AFR 67-16/MCO 4430.3D/DSAR 4140.55, for shipping-type (item) discrepancies.

(3) AR 702-7/NAVMAT INST 4855.8A/AFR 74-6/MCO 4855.5/DSAR 4155.24, for deficient materiel.

b. Billing Adjustments. Action to obtain billing adjustments due to lost, short, damaged or deficient materiel or materiel received with expired shelf life in shipments within DoD will be initiated by the billed activity. No action for billing adjustment for these causes will be initiated within DoD when the loss or damage is less than \$100 per line item. Such losses will be absorbed by the ordering activity. When \$100 or more is claimed per line item, appropriate adjustment request will be initiated by the billed activity for approval/disapproval.

c. Requests from customers outside DoD, other than GSA, for billing adjustments will be approved, if in order, and applied as credit adjustment to the customer's bill within 30 days after receipt of an adjustment request, subject to the criteria in (1), (2) and (3) below:

(1) Transportation-type discrepancies when the value or cost of repairs exceeds \$15. on a single bill of lading.

(2) Shipping-type (item) discrepancies (including lost or damaged parcel post shipments) when the dollar value exceeds \$10. per line item.

(3) Deficient materiel when the value exceeds \$10. per line item.

d. Adjustment requests involving discrepancies, other than those in paragraphs 7-1b or 7-1c above (e.g. adjustment requests involving billing errors), will be confirmed for validity of the request. Approved requests will be applied as an adjustment/allowance to the customer's account and included in a subsequent billing document. Such adjustment requests should not be submitted and, if submitted, will not be approved, when the adjustment involves:

(1) \$25. or less per line item from GSA activities.

or (2) \$10. or less per line item from other than DoD/GSA activities.

or (3) Less than \$100. per line item from DoD activities.

e. In any case where a customer has received materiel, not yet billed, billing requests should not be submitted before 60 days after receipt of materiel (Advice Code 134-Materiel received but billing not received).

f. In any case where a customer has not received a reply within 60 days after submission of FAE, the customer will forward a followup pursuant to Appendix B5.

g. In the case of item discrepancies arising on lost, short, damaged or deficient materiel or materiel received with expired shelf life in shipments under Foreign Military Sales (FMS) Program, adjustments of \$100 or less per line item may be automatically granted by the Military Department in consideration of the fact that the cost of re-searching and documenting such discrepancies normally exceeds \$100. Safeguards should be established to ensure this procedure is not abused by the customer.

(1) In the instance of shipments involving lost, short, damaged or deficient materiel or materiel received with expired shelf life on FMS sales of a Military Department with the Defense Supply Agency acting as the second source supplier, the Military Department will finance these losses from the DSA reimbursements for retail losses (retail loss allowance). On FMS shipments made directly by the General Services Administration (GSA) these losses will be absorbed by the ordering stock fund or appropriation-financed inventory account of the Military Department.

(2) Charge stock fund losses to "Inventory Loss Due to Shrinkage, Theft, Contamination and Deterioration," Account 560.

(3) Charge appropriation-financed inventory losses to the account for "Physical Inventory Losses" under procedures established by each Military Department.

(4) Credits and adjustments to the foreign governments arising from these discrepancies normally will be processed in accordance with DoD Instruction 2140.3, without the issuance of checks.

h. Requests for billing adjustment/allowances and responses will be by transmitters, when available.

7-2. CUSTOMER REQUESTS TO GSA ACTIVITIES

a. Customers requesting an adjustment will submit to the GSA billing office or, if possible, to the GSA office which made or directed shipment of the materiel, a Customer Request for Materiel Billing Adjustment/Allowance Card per Appendix B5:

(1) Where discrepancy reports are involved, billed offices will withhold submission of request for billing adjustment (FAE cards) until 60 days after submission of the original discrepancy report (SF 361, Discrepancy in Shipment Report, SF 363, a discrepancy in Shipment Confirmation, SF 364, Report of Item Discrepancy, SF 368, Quality Deficiency Data, or message format of (SF 368) etc.).

(2) When it becomes necessary to submit a request for billing adjustment involving a discrepancy report, a copy of the appropriate discrepancy report will accompany the Customer Request for Materiel Billing Adjustment/Allowance Card.

b. GSA adjusts billing when appropriate, when the value exceeds \$25. on receipt of the original discrepancy reports submitted in accordance with the applicable regulation cited below. Losses or gains of \$25. or less will be absorbed by the ordering activity.

(1) AR 55-38/NAVSUPINST 4610.33A/AFR 75-18/MCO P4610.19B/DSAR 4500.15, for transportation-type discrepancies.

(2) AR 735-11-2/NAVSUPINST 4440.127D/AFR 67-16/MCO 4430.3D/DSAR 4140.55, for shipping-type (item) discrepancies.

(3) AR 702-7/NAVMAT INST 4855.8A/AFR 74-6/MCO 4855.5/DSAR 4155.24, for deficient materiel.

c. Adjustments arising from causes other than 7-2b above will not be requested when the value is \$25. or less per line item. Losses or gains will be absorbed by the ordering activity.

d. When a customer has received materiel, not yet billed, billing requests should not be submitted before 60 days after receipt of materiel (inquiries to GSA will be by letter with line items listed by document number and within document number by manifest or purchase order number). The billed office may submit a follow-up request in those cases when it has not received a reply within 60 days after submission of the initial request for billing.

e. In any case when a customer has not received a reply within 60 days after initial request for adjustment, the customer will forward a follow-up pursuant to Appendix B5.

7-3. REVIEW AND REPLY TO REQUESTS

a. Billing offices will review the requests and determine whether the requests should be granted or denied.

b. Billing activities will advise customers concerning their requests for billing adjustments/allowances through use of the card format described in Appendix B6.

c. The GSA office which made or directed shipment of materiel for which a Customer Request for Billing Adjustment is received will: review the request; determine whether the request should be granted or denied, and advise customers of their decision.

d. Billing offices will reply to customer request as promptly as possible. Replies should normally be processed within 30 days and no later than 60 days.